

NEWTON TOWNSHIP, MACKINAC COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

June 30, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Newton Township	County Mackinac
Fiscal Year End June 30, 2006	Opinion Date December 22, 2006	Date Audit Report Submitted to State April 9, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Gillett, Halvorsen & Leonhardt, P.C.		Telephone Number (906) 635-1589		
Street Address 478 W. Spruce St, PO Box 437		City Sault Ste. Marie	State MI	Zip 49783
Authorizing CPA Signature	Printed Name James A. Gillett		License Number 014856	

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# GILLETT, HALVORSEN & LEONHARDT, P.C.

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## INDEPENDENT AUDITORS' REPORT

Township Board  
Newton Township  
Gould City, MI 49838

We have audited the accompanying financial statements of the governmental activities and the major fund of Newton Township as of and for the year ended June 30, 2006, as listed in the Table of Contents. These basic financial statements are the responsibility of Newton Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and Major Fund of Newton Township as of June 30, 2006, and the changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 and the budgetary comparisons on pages 26-27 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gillett, Halvorsen & Leonhardt, PC  
Certified Public Accountants

December 22, 2006  
Sault Ste. Marie, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEWTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

=====

Within this section of Newton Township annual financial report, the Township's management provides a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended June 30, 2006. Newton Township's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government, unless otherwise noted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Township's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information of the Township's overall status. Financial reporting on this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Township-Wide statement of financial position presenting information that includes all of the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall economic health of the Township would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Township infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of this statement of activities is to show financial reliance of the Township's distinct activities or functions on revenues provided to the Township.

NEWTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2006

=====

FUND FINANCIAL STATEMENTS

The Township has one kind of fund:

Governmental funds are reported in the financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing distinctive view of the Township's governmental funds. The statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements and schedules demonstrate compliance with the Township's adopted and final revised budget.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which follows the notes to the financial statements.

TOWNSHIP AS A WHOLE

The Township's assets exceed its liabilities by \$177,840 for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets of \$87,847 include land, property and equipment net of accumulated depreciation.

NEWTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2006

=====

THE TOWNSHIP AS A WHOLE (CONTINUED)

(2) Net assets of \$19,372 are restricted by constraints imposed from outside the Township such as grantors, laws or regulations.

(3) Unrestricted net assets of \$70,621 represent the portion available to maintain the Township's continuing obligations.

The Township's governmental funds reported total ending fund balance of \$89,993 this year. This compares to the prior year ending fund balance of \$89,728 showing a increase of \$265 during the current year.

A comparative analysis has not been presented as Townships with a population of less than 2,000 people are required to be audited every other year.

In a condensed format, the table below shows the net assets of the Township at June 30, 2006.

	Governmental Activities
	-----
Current assets	\$ 72,110
Restricted assets	19,372
Non-current assets	87,847
	-----
Total Assets	\$179,329
	-----
Current Liabilities	\$ 1,489
	-----
Net Assets	
Invested in capital assets	\$ 87,847
Restricted	19,372
Unrestricted	70,621
	-----
Total Net Assets	\$177,840
	=====

The Township reported a positive balance of \$177,840 in governmental activities with net assets increased by \$4,802, an increase of 2.78%.



NEWTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2006

=====

THE TOWNSHIP AS A WHOLE (CONTINUED)

The following table shows the activities of Newton Township for the year ended June 30, 2006.

	Governmental Activities -----
Program Revenues	
Charges for services	\$ 13,911
Operating grants	26,454
General Revenues	
Taxes	57,854
Contributions from local units	30,744
Interest income	3,672
Other revenue	3,765
	-----
Total Revenues	\$136,400
Program Expenses	
General government	\$ 70,975
Public safety	28,782
Public works	16,471
Recreation and culture	860
Other expenditures	14,510
	-----
Total Expenses	\$131,598
	-----
Change in Net Assets	\$ 4,802
	=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUND

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance of \$89,993. Of this year end total, \$70,621 is unreserved indicating availability for continuing Township activities. Reserved fund balances include \$8,920 committed to public works and \$10,452 committed to contingencies.

NEWTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2006

=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (CONTINUED)

The general fund pays for all the Township's governmental services. These services were largely supported by property taxes and state shared revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township Board amended the budget to take into account events during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2006, the Township had \$87,847 invested in a broad range of capital assets net of accumulated depreciation, including buildings and fire equipment. In addition, the Township has invested significantly in roads within the Township. The roads are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Mackinac County Road Commission (along with the responsibility to maintain them).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of 5% or inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, Township State Revenue sharing continues to be reduced.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: N6129 Milakokia Lake Road, Gould City, MI 49838 or (906) 477-6207.

BASIC FINANCIAL STATEMENTS

NEWTON TOWNSHIP

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2006

=====	
	PRIMARY GOVERNMENT
	-----
	GOVERNMENTAL
	ACTIVITIES
=====	
ASSETS	
Current Assets	
Cash and equivalents	\$ 67,476
Due from other funds	1,003
Due from other governmental units	3,631
Restricted assets - cash and equivalents	19,372
Capital assets - net	87,847
	-----
TOTAL ASSETS	\$179,329
	-----
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 1,489
	-----
TOTAL LIABILITIES	\$ 1,489
	-----
NET ASSETS	
Invested in capital assets	\$ 87,847
Restricted for:	
Contingencies	10,452
Public works	8,920
Unrestricted	70,621
	-----
TOTAL NET ASSETS	\$177,840
	=====

The notes to financial statements are an integral part of this statement.

NEWTON TOWNSHIP

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

=====					
PROGRAM REVENUES					
-----					
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CON- TRIBUTIONS	CAPITAL GRANTS AND CON- TRIBUTIONS	GOVERN- MENTAL ACTIVITIES
=====					
GOVERNMENTAL ACTIVITIES					
General government	\$ 70,975	\$ 9,991	\$ 24,349	\$ -0-	\$ (36,635)
Public safety	28,782	3,050	-0-	-0-	(25,732)
Public works	16,471	-0-	2,105	-0-	(14,366)
Recreation and culture	860	-0-	-0-	-0-	(860)
Other expenditures	14,510	-0-	-0-	-0-	(14,510)
	-----	-----	-----	-----	-----
TOTAL GOVERNMENTAL ACTIVITIES	\$131,598	\$13,041	\$ 26,454	\$ -0-	\$ (92,103)
	=====	=====	=====	=====	=====
GENERAL REVENUES					
Taxes					\$ 57,854
Payments in lieu of taxes					30,744
Interest income and rents					4,542
Refunds and reimbursements					3,744
Donations					21
					-----
TOTAL GENERAL REVENUES					\$ 96,905
					-----
CHANGE IN NET ASSETS					\$ 4,802
					-----
NET ASSETS - JULY 1, 2005					173,038
					-----
NET ASSETS - JUNE 30, 2006					\$ 177,840
					=====

The notes to financial statements are an integral part of this statement.

NEWTON TOWNSHIP  
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

=====	
	GENERAL
	FUND
=====	
ASSETS	
Cash and equivalents	\$86,848
Due from other funds	1,003
Due from other governmental units	3,631
	-----
TOTAL ASSETS	\$91,482
	=====
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 1,489
	-----
TOTAL LIABILITIES	\$ 1,489
FUND BALANCE	
Reserved for restricted purposes	\$19,372
Unreserved	70,621
	-----
TOTAL FUND BALANCE	\$89,993
	-----
TOTAL LIABILITIES AND FUND BALANCE	\$91,482
	=====

The notes to financial statements are an integral part of this statement.

NEWTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2006

=====

Total Fund Balance - Governmental Fund	\$ 89,993
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$185,780, net of accumulated depreciation of \$97,933, are not financial resources and, therefore, are not reported in the fund. See note 5 for additional detail.	87,847
	-----
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$177,840
	=====

The notes to financial statements are integral part of this statement.

NEWTON TOWNSHIP

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

For the year ended June 30, 2006

=====	
	GENERAL FUND
=====	
Revenues	
Taxes	\$ 57,854
State grants	26,454
Contributions from local units	30,744
Charges for services	13,041
Interest and rents	4,542
Other revenue	3,765
	-----
TOTAL REVENUES	\$136,400
Expenditures	
General government	\$ 69,187
Public Safety	28,427
Public works	16,471
Recreation and cultural	860
Other expenditures	14,510
Capital outlay	6,680
	-----
TOTAL EXPENDITURES	\$136,135
	-----
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 265
FUND BALANCE - JULY 1, 2005	89,728
	-----
FUND BALANCE - JUNE 30, 2006	\$ 89,993
	=====

The notes to financial statements are an integral part of this statement.



NEWTON TOWNSHIP

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

=====	
Net change in Fund Balance - Governmental Fund	\$ 265
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$6,680 exceeded depreciation of \$2,143 in the current period.	
	4,537
	-----
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 4,802
	=====

The notes to financial statements are an integral part of this statement.

NEWTON TOWNSHIP  
STATEMENT OF NET ASSETS  
FIDUCIARY FUND

June 30, 2006

```
=====
                                                    AGENCY FUND TYPE
                                                    -----
                                                    PROPERTY TAX
                                                    COLLECTION FUND
=====
```

ASSETS	
Cash and equivalents	\$1,003
	=====
LIABILITIES	
Due to other fund - general	\$1,003
	=====

The notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Newton Township, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A - REPORTING ENTITY

Financial Reporting Entity

Newton Township is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire and ambulance protection, community enrichment and development and public works, parks and recreation and general administrative services.

The Township, for financial purposes, includes all funds relevant to the operations of Newton Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Newton Township.

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Newton Township has no business-type activities or separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2006

=====

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Newton Township has only the general fund.

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable - Current Property Taxes

The Newton Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Newton Township as of the preceding December 31st.

Although Newton Township 2005 ad valorem tax is levied and collectible on December 1, 2005, it is Newton Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

The 2005 taxable valuation of Newton Township totaled \$32,828,993, on which ad valorem taxes levied consisted of 1.1486 mills for Township operating purposes. This amount is recognized in the General Fund financial statements as tax revenue.

The Township reports the following major governmental fund:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Deposits are recorded at cost.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowances for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items.

Long-Term Debt - In the district-wide financial statements, long-term debt or other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Grants and Other Intergovernmental Revenue - Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control - The Township follows these procedures in establishing the budgetary data reflected in the financial statements.



NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

- a. Each May, the Township Board prepares a proposed operating budget for the fiscal period commencing July 1 and lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the Township Board level for the General Fund. Any revisions that alter the total expenditures of any fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments. The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the Township Board level.

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents -			
Restricted	\$19,372	\$ -0-	\$19,372
Unrestricted	67,476	1,003	68,479
	-----	-----	-----
Totals	\$86,848	\$ 1,003	\$87,851
	=====	=====	=====

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits - checking	\$ 1,250
Bank deposits - savings	76,149
Certificate of deposits	10,452
	-----
Total	\$ 87,851
	=====

Investments

Newton Township has no investments.

Investment and Deposit Risk

Interest rate risk - State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

Credit risk - The Township has no investments for which ratings are required.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of June 30, 2006, none of the Township's bank balance of \$88,900 was exposed to credit risk because it was uninsured and uncollateralized.

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Statutory Authority:

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit Board has designated one bank for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized deposits and investments as above.

The Local Governmental Unit's deposits and investment policy are in accordance with statutory authority.

At year end, the carrying amount of the Township's primary and fiduciary deposits was \$87,851 and the bank balance was \$88,900. All of the bank balance of \$88,900, was covered by federal depository insurance according to FDIC regulations. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - RECEIVABLES

	General Fund
Receivables:	
Due from other funds	\$1,003
Due from other governmental units	3,631
	-----
Total Receivables	\$4,634
	=====

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 71,300	\$ -0-	\$ -0-	\$ 71,300
Capital assets being depreciated:				
Buildings	\$ 60,000	\$ -0-	\$ -0-	\$ 60,000
Machinery and equipment	50,200	6,680	2,400	54,480
	-----	-----	-----	-----
Subtotal	\$110,200	\$ 6,680	\$ 2,400	\$114,480
	-----	-----	-----	-----
Less accumulated depreciation for:				
Buildings	\$ 48,750	\$ 1,250	\$ -0-	\$ 50,000
Machinery and equipment	49,440	893	2,400	47,933
	-----	-----	-----	-----
Subtotal	\$ 98,190	\$ 2,143	\$ 2,400	\$ 97,933
	-----	-----	-----	-----
Net Capital Assets Being Depreciated	\$ 12,010	\$ 4,537	\$ -0-	\$ 16,547
	-----	-----	-----	-----
Governmental Activity Capital Total				
Capital Assets-Net of Depreciation	\$ 83,310	\$ 4,537	\$ -0-	\$ 87,847
	=====	=====	=====	=====

Depreciation expense was charged to programs of primary government as follows:

Governmental Activities:	
General Government	\$ 2,143
	=====

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2006 is as follows:

	Interfund Receivable		Interfund Payable
	-----		-----
General	\$1,003	Tax Collection	\$1,003
	=====		=====

There were no interfund transfers for the year ended June 30, 2006.

NOTE 7 - RESTRICTED NET ASSETS AND CONTINGENCIES

The Township was a respondent in two appeals filed with the State tax tribunal in a dispute over personal property tax assessments. The appeals have been filed by Lakehead Pipeline Company and Great Lakes Gas Company. The Township has retained legal counsel as provided by the Michigan Township Association, in cooperative participation with other townships who have been similarly petitioned. The dispute involved the State guidelines utilized for determining assessed value and State equalized value of transmission pipeline. The Township has filed a motion to dismiss the appeal but await final resolution. The Great Lakes Gas Company dispute was settled during 1998 at a cost of \$5,295. If the remaining appeal is upheld, the cost to the Township could approximate \$5,000. The Township has placed \$10,452 in an interest bearing certificate of deposits to be reserved for the possible outcome, although the actual result is not yet known.

The Township received \$2,105 under the Metropolitan Extension Telecommunications Right-of-Way Oversight Act (PA 48 of 2002, MCLS 484.3101 - 3120), also known as the "Metro Act". This represents the Township's portion of the fees being paid to the state by telecommunication providers for the Right-of-Way used within the Township. This funding is restricted in use to the maintenance of the aforementioned right-of-way. As of June 30, 2006, no expenditures have been made for this purpose. The restricted balance as of June 30, 2006 is \$8,920.

NOTE 8 - SEP/INDIVIDUAL RETIREMENT ACCOUNT PLAN

The Township has established a SEP/IRA plan for eligible employees. Eligible employees include anyone at least 18 years of age; no compensation limit. The Township board has a policy that permits the Township to have a SEP/IRA plan which they can amend. They have designated the clerk as the Plan

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 8 - SEP/INDIVIDUAL RETIREMENT ACCOUNT PLAN (CONTINUED)

Administrator. Payments due are based on 7.5% of eligible employee wages, and all were timely paid. A total of 24 employees were covered by the plan during the year, and payments of \$3,405 were made based on an eligible payroll of \$45,528.

NOTE 9 - DISTRIBUTION OF TAX COLLECTION

The Township must remit to the schools and the county total taxes collected through the 1st and 15th day of each month within 10 business days after the 1st and 15th day of each month. In addition, the Township is required to remit within ten business days, at least 90% of the total property tax collections on hand as of February 28 for tax revenues that were collected for other taxing units. During the year ended June 30, 2006, the Township remitted taxes to the schools and the county within the required time periods.

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$9,823 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in the past three years. There was no reduction in coverage obtained through insurance during the past year.

NEWTON TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

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NOTE 11 - CONTINGENT LIABILITIES

The Township has received financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at June 30, 2006.

NOTE 12 - POSTEMPLOYMENT

Newton Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of June 30, 2006.

NOTE 13 - COMPENSATED ABSENCES

The Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of June 30, 2006.

NOTE 14 - BUDGET AMENDMENT

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Authorized budget amendments were approved as follows:

FUND	AMOUNT
-----	-----
General Fund	
Legislative	
Township board	\$ 2,000
General Government	
Assessor	1,500
Board of review	4
Cemetery	850
Other Expenditures	
Insurance and bonds	520
Other	(4,874)

REQUIRED SUPPLEMENTAL INFORMATION



NEWTON TOWNSHIP

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
BEGINNING FUND BALANCE - JULY 1, 2005	\$ 89,728	\$ 89,728	\$ 89,728	\$ -0-
RESOURCES (INFLOWS)				
Taxes	50,100	50,100	57,854	(7,754)
State grants	24,000	24,000	26,454	(2,454)
Contributions from local units	28,600	28,600	30,744	(2,144)
Charges for services	6,000	6,000	13,041	(7,041)
Interest and rents	3,025	3,025	4,542	(1,517)
Other revenue	3,500	3,500	3,765	(265)
AMOUNTS AVAILABLE FOR APPROPRIATION	\$204,953	\$204,953	\$226,128	\$ (21,175)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General Government				
Legislative	\$ 8,565	\$ 10,565	\$ 7,867	\$ 2,698
Supervisor	10,023	10,023	7,439	2,584
Treasurer	15,800	15,800	14,289	1,511
Assessor	13,625	15,125	15,106	19
Clerk	11,033	11,033	10,262	771
Board of Review	745	749	748	1
Elections	2,525	2,525	748	1,777
Cemetery	2,550	3,400	2,754	646
Township Hall	15,325	15,325	9,974	5,351
Total General Government	\$ 80,191	\$ 84,545	\$ 69,187	\$ 15,358
Public Safety				
Fire	\$ 18,240	\$ 18,240	\$ 16,046	\$ 2,194
Ambulance	6,000	6,000	6,000	-0-
Building inspection	4,260	4,260	2,418	1,842
Electrical inspection	4,260	4,260	3,963	297
Board of appeals	158	158	-0-	158
Total Public Safety	\$ 32,918	\$ 32,918	\$ 28,427	\$ 4,491

NEWTON TOWNSHIP

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
CHANGES TO APPROPRIATIONS (OUTFLOWS) (CONTINUED)				
Public Works				
Highways, streets and bridges	\$ 25,422	\$ 25,422	\$ 10,947	\$ 14,475
Streetlights	2,750	2,750	2,750	-0-
Sanitation	5,075	5,075	2,774	2,301
	-----	-----	-----	-----
Total Public Works	\$ 33,247	\$ 33,247	\$ 16,471	\$ 16,776
Recreation and Culture				
Parks	\$ 2,700	\$ 2,700	\$ 860	\$ 1,840
Other Expenditures				
Insurance, bonds and pension	\$ 14,000	\$ 14,520	\$ 14,510	\$ 10
Other	26,965	22,091	-0-	22,091
	-----	-----	-----	-----
Total Other Expenditures	\$ 40,965	\$ 36,611	\$ 14,510	\$ 22,101
Capital Outlay	\$ 6,750	\$ 6,750	\$ 6,680	\$ 70
	-----	-----	-----	-----
TOTAL CHANGES TO APPROPRIATIONS	\$196,771	\$196,771	\$136,135	\$ 60,636
	-----	-----	-----	-----
BUDGETARY FUND BALANCE - JUNE 30, 2006	\$ 8,182	\$ 8,182	\$ 89,993	\$ (81,811)
	=====	=====	=====	=====



## GILLETT, HALVORSEN & LEONHARDT, P.C.

Certified Public Accountants

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MEMBER OF THE MICHIGAN  
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER OF THE AMERICAN  
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board  
Newton Township  
Gould City, MI 49838

We have audited the financial statements of Newton Township for the year ended June 30, 2006, and have issued our report thereon dated December 22, 2006. Professional standards require that we provide you with the following information related to our audit.

### AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated November 13, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

### SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Newton Township are described in Note 1 to the financial statements. We noted no transactions entered into by Newton Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly

from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

#### AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicate matters that could have a significant effect on the Township's financial process.

#### DISAGREEMENT WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### CONSULTATION WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### ISSUES DISCUSSED PRIOR TO RETENTION OF INDEPENDENT AUDITORS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Newton Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

#### COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS

As part of our audit, we considered the internal control of Newton Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we do not express an opinion on the system of internal control structure of Newton Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

#### CASH AND INVESTMENTS

At year end, the Township had no deposits with financial institutions that were uninsured by federal depository insurance. However, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance. We recommend that the Township insure all funds.

#### SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

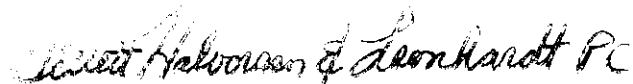
The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

In addition to the above reportable conditions, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

#### TAX COLLECTION FUND

The treasurer should have a change fund available during the tax collection fund to facilitate those taxes paid with cash.

This report is intended solely for the information and use of the Township Board.



Gillett, Halvorsen & Leonhardt, P.C.  
Certified Public Accountants

December 22, 2006  
Sault Ste. Marie, Michigan